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1 understood the question correctly. And the haircut that is
 2 applied would be based upon whatever the new value is.
 3 **Q So would Live Well be -- if the haircut is still**
 4 **10 percent and the bond is now valued at \$200, Live Well would**
 5 **be able to borrow up to \$180?**
 6 A Correct.
 7 **Q Would Live Well actually be able to borrow more -- to**
 8 **get more money from the lender based on that same bond?**
 9 A Yes.
 10 **Q And are there any restrictions to what Live Well**
 11 **could do with that additional money?**
 12 A Not to my knowledge.
 13 **Q Could Live Well buy more bonds with that money?**
 14 A I believe so, yes.
 15 **Q Could Live Well pay salaries with that money?**
 16 A I believe so, yes.
 17 **Q Could Live Well pay bonus compensation with that**
 18 **money?**
 19 A I believe so, yes.
 20 **Q I'm going to start a new line of questioning about**
 21 **this hypothetical bond valued at \$100 that Live Well enters**
 22 **into a repo agreement. So the bond is now, again, worth --**
 23 **valued at \$100, and there's a 10 percent haircut. So Live Well**
 24 **borrowes \$90 to buy that bond valued at \$100. What happens if**
 25 **the value of the bond goes down to \$50 during the term of the**

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1 **repo agreement?**
 2 A My understanding is that there would be a margin call
 3 at some point.
 4 **Q So would the haircut thing get applied to that \$50**
 5 **value?**
 6 A Yes.
 7 **Q So now Live Well would only be able to borrow \$45**
 8 **against the bond?**
 9 A Yes.
 10 **Q Whereas it originally borrowed \$90, in this example?**
 11 A Yes.
 12 **Q So would Live Well have to repay the lender \$45 in**
 13 **this hypothetical example?**
 14 A Yes.
 15 **Q When Live Well acquired the HREMIC portfolio in 2014**
 16 **using warehouse lines as well as repo counterparties, did Live**
 17 **Well consider alternative sources of funding?**
 18 A So the -- at the time, the predominant sources of
 19 funding that we considered were financing, which were warehouse
 20 lines, and repo lines. Those were the two predominant sources
 21 of funding that we evaluated. We may have had a brief
 22 conversation about a potential opportunity for an equity raise,
 23 but very clearly kind of ruled that out, considering the timing
 24 of the acquisition.
 25 **Q Earlier in the interview, you stated that**

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1 **Mr. Stumberger approached you with an opportunity regarding the**
 2 **investment portfolio; is that correct?**
 3 A Yes.
 4 **Q Can you describe what pitch Mr. Stumberger made to**
 5 **get -- to pique your interest in this line of business?**
 6 A Long time ago, so I don't remember exactly what the
 7 conversation entailed, but I recall that it was -- very
 8 generally speaking, it was a pitch, if you will, that there was
 9 a third component of Live Well's -- or, excuse me, a third
 10 component of the business that we were not active in, which was
 11 the interest income on the bonds that are created as a result
 12 of our mortgage origination and servicing activities, and that
 13 it was a highly lucrative piece of the business with little to
 14 no active investors' competition. It was a very limited group
 15 that participated in that space.
 16 And that -- his pitch was one of both offense and, I
 17 guess, defense, in that the opportunity was there to bolster
 18 the investor base by being an investor in these bonds, helping
 19 to provide liquidity to the industry and to its consumers in
 20 order to keep the program on stable footing. And then one
 21 of -- I guess you could -- offense. I mean, that's my own
 22 term.
 23 I don't know that he specifically used the word offense
 24 and defense, but one that was -- you know, in terms of
 25 opportunity, extremely lucrative, because of the fact that at

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1 any given point in time, there may only be a handful, one or
 2 two, active buyers, sometimes no active buyers in the space.
 3 And given that phenomenon, it was something that he
 4 thought would be a natural progression for the company in order
 5 to protect its interest in the -- having, you know, liquidity
 6 for the industry and for its consumers and benefiting in the
 7 form of outsized returns, given the sheer small number and
 8 sometimes nonexistent number of players that were willing to
 9 invest in the structured HREMIC securities that were being
 10 created.
 11 And he made the argument that, you know, he and his
 12 team were capable in helping us add that component of the
 13 business to our other two underlying components -- origination
 14 and servicing, and as an active and approved issuer with
 15 Ginnie Mae, we had a dedicated supply of bonds that we were
 16 able to create which would be beneficial from his vantage --
 17 from his team's vantage point as well, as in their prior role
 18 at Stifel, they were not actively issuing HMBS bonds. And so
 19 that was kind of the short summary pitch that was made, before
 20 it was then a broader, more detailed conversation involving
 21 Mr. Rohr.
 22 **Q What was the explanation, whether at that time or**
 23 **when it got more detailed with Mr. Rohr, on how it could be --**
 24 **this line of business could be so lucrative?**
 25 A Yeah.

1 Well, it was described for the reasons that I
2 just articulated in that the number of investors in this space
3 were quite limited, and long periods of time would go by when
4 there were no investors, in particular in the HREMIC IO
5 securities.

6 And so that worked to produce, I guess, using his
7 terminology, dysfunctional or outsized yields, because the --
8 you know, there was next to no one that was investing regularly
9 in the securities for long stretches of time, and when there
10 were, there was only a handful, and that the broker-dealers
11 that were in the space were not in a position to be able to
12 hold those securities that they were making a market in for
13 extended durations due to credit policy decisions that had been
14 made internally or regulatory restrictions.

15 And so they had very limited time windows in which
16 they had to sell those securities to get them off their books
17 or suffer penalties. And so he encouraged us to explore
18 becoming an investor and a buyer of those securities for all
19 those reasons.

20 **Q And what was the -- was the plan to actively trade**
21 **the portfolio, as in buy and sell, or was the plan to buy and**
22 **hold?**

23 A Oh, the plan was to buy and hold, because there
24 wasn't an active -- the way it was explained to me, there was
25 not an active, functioning market to be able to sell the HREMIC

1 securities once they were acquired. So, you know, he did go to
2 great length to make sure that we understood that once you buy
3 it, you own it, and you hold it to maturity, because there just
4 wasn't an active market that was operating to be able to sell
5 the securities into.

6 And the investors that were actively
7 buying these bonds -- you know, they went onto their balance
8 sheet and kind of disappeared. They stayed there forever, in
9 large part, so that we should expect the same.

10 **Q So is it fair to say the plan was to acquire bonds,**
11 **and the benefit to Live Well would be the monthly remittance**
12 **payments received on those bonds?**

13 A The benefit was to certainly to hold the bonds to
14 maturity, yes, and to receive the income that those bonds would
15 generate over time.

16 **Q As opposed to buying the bond because you believe the**
17 **bond is going to go up in value and you could then sell the**
18 **bond for more than you bought it for?**

19 A Yeah. Our intention was to buy and hold the bonds to
20 maturity, yes. We were not active traders in the bonds who are
21 looking to actively sell the bonds. No.

22 **Q So you mentioned, when we were talking about the repo**
23 **financing agreements, one of the key terms is the value, and**
24 **that's the value that the lender places on the security; is**
25 **that correct?**

1 A Correct.

2 **Q Why is that an important term for Live Well?**

3 A It determines the lendable amount.

4 **Q Why is that an important term for the lender?**

5 A It determines the lendable amount.

6 **Q Is the value important to the lender also because**
7 **they need to lend it at a price at which the security could be**
8 **sold, if there's, for example, an event of default?**

9 A Well, no.

10 I don't see that the sale of those
11 securities would be a reasonable expectation, given the
12 description I just gave of the market and the nature of these
13 bonds and that they were highly illiquid and held-to-maturity
14 type bonds.

15 **Q What was the longest term that Live Well had with one**
16 **of its repo lenders?**

17 A I believe six years.

18 **Q Which lender is that?**

19 A I believe that's Flagstar.

20 **Q Does that mean that Live Well -- Flagstar would lend**
21 **Live Well money to buy a bond and Live Well would have up to**
22 **six years to repay Flagstar for that particular bond?**

23 A What it means is that the term on the loan was capped
24 at six years. So my understanding is that there are monthly
25 payments that are required for things like interest and the

1 like along the duration of that term, but the facility matures
2 at the end of that six-year committed term.

3 **Q Was one of Live Well's repo financing providers a**
4 **company called Mizuho?**

5 A Yes.

6 **Q What was the term of the repo financing with Mizuho?**

7 A I believe it was referred to as "on open," if I'm not
8 mistaken.

9 **Q What does "on open" mean?**

10 A That there's no committed term.

11 **Q Does that mean that Mizuho could lend Live Well \$100**
12 **one day and 50 days later say it wants -- it no longer wants to**
13 **lend Live Well money and it wants to be repaid?**

14 A It does.

15 **Q So if there's a repo financing on open, as you just**
16 **described, isn't it important that the repo provider lends**
17 **money at a value for which Live Well could sell the security if**
18 **the repo line gets closed?**

19 A So, again, the market is highly illiquid, and so the
20 expectation to be able to sell into that market, I think, is
21 not a good one, based upon my understanding of it and the way
22 it's been described to me and my own personal observations over
23 the years.

24 **Q Well, what about if Mizuho lends Live Well money on**
25 **open and Live Well -- there's a problem with Live Well's**